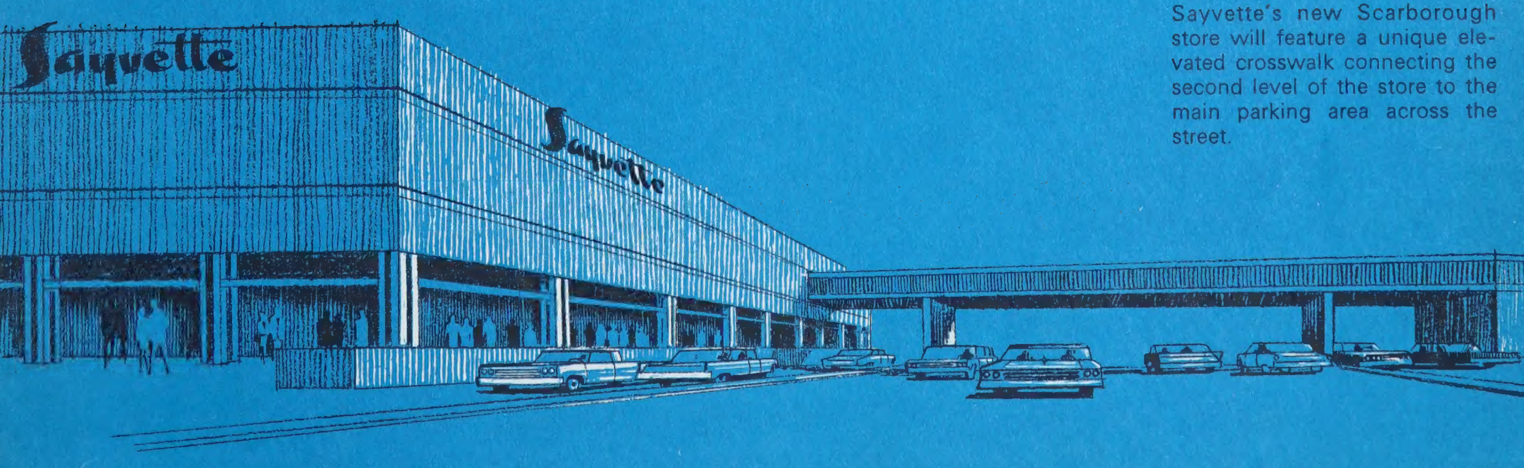
Cor report

Sayvette

ANNUAL REPORT

1965



Sayvette's new Scarborough store will feature a unique elevated crosswalk connecting the second level of the store to the main parking area across the street.

SAYVETTE LIMITED AND SUBSIDIARY

(Incorporated under the Laws of Canada)

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED JANUARY 1, 1966

CONSOLIDATED BALANCE SHEET

ASSETS	January 1, 1966	December 26, 1964
CURRENT ASSETS		
Cash	$ 75,481	$ 148,375
Receivables (after deducting allowance for doubtful accounts)	300,458	282,730
Inventories — valued at selling price less normal gross profit	2,536,251	2,323,587
Convertible notes	10,374	83,333
Prepaid expenses	75,805	35,679
	2,998,369	2,873,704
FIXED ASSETS — at cost		
Fixtures and equipment	914,748	797,690
Accumulated depreciation	232,460	163,246
	682,288	634,444
Leasehold improvements	661,156	533,431
Amortization to date	67,196	40,248
	593,960	493,183
	1,276,248	1,127,627
OTHER ASSETS		
Prepaid rent and debenture discount and expense	213,064	162,672
Deferred expenses (note 5)	179,461	—
	392,525	162,672
	$4,667,142	4,164,003

LIABILITIES	January 1, 1966	December 26, 1964
CURRENT LIABILITIES		
Demand loan (note 7)	$1,250,000	—
Bank loan	—	1,000,000
Accounts payable and accrued expenses	1,629,151	1,452,508
Sales and other taxes	109,655	95,793
	2,988,806	2,548,301
6¼% SECOND CONVERTIBLE, REDEEMABLE DEBENTURES	—	247,000
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (note 2)		
Authorized —		
2,500,000 shares without nominal or par value		
Issued and fully paid (note 3) — 1,232,425 shares	5,695,488	5,433,000
DEFICIT	4,017,152	4,064,298
	1,678,336	1,368,702
ASSISTANCE AGREEMENT (note 1)		
LONG-TERM LEASES AND COMMITMENTS (note 4)		
SIGNED ON BEHALF OF THE BOARD	$4,667,142	$4,164,003

P. G. Jeffrey, *Director*
D. M. Deacon, *Director*

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Sayvette Limited and subsidiary as at January 1, 1966 and the consolidated statements of earnings, deficit and source and use of funds for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and consolidated statements of earnings, deficit and source and use of funds, when read in conjunction with the notes thereto, present fairly the consolidated financial position of the companies as at January 1, 1966 and the consolidated results of their operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent (except for the changes described in notes 1 and 5) with that of the preceding year.

March 17, 1966
Toronto, Ontario

McDonald, Currie & Co.
Chartered Accountants

A YEAR OF PROGRESS IN REVIEW

INCREASE IN COMPANY GROSS SALES DOUBLE INDUSTRY AVERAGE

UPGRADING PROGRAMME GAINING WIDESPREAD PUBLIC ACCEPTANCE

MANUFACTURERS ENDORSE NEW SAYVETTE POLICIES

FOUR THOUSAND ITEMS ADDED TO BASIC STOCK LIST OF PREVIOUS YEAR

1965 was definitely a progressive year in the history of your Company — a year that showed a dramatic sales increase and a substantial profit, as well as a series of internal improvements which resulted in greater efficiency and productivity.

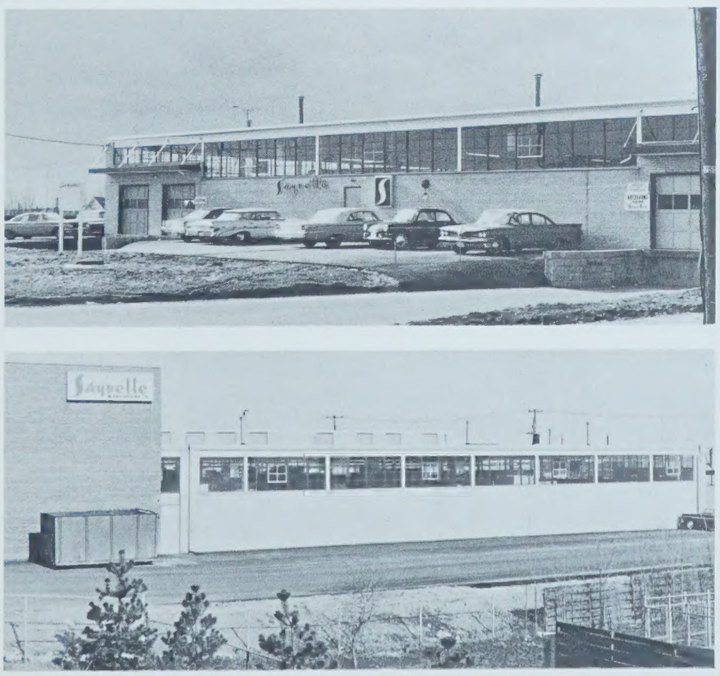
Widespread public endorsement of our fashion-oriented upgrading programme is clearly evident in the 2.2 million dollar increase in gross sales recorded by the Company during 1965. This figure represents an increase of 13.1% as against the provincial department store average of only 6.1%.

The programme launched in late 1964 to upgrade the quality of Sayvette merchandise and service and to project a correspondingly more attractive Company image to the consumers began to take shape mid-way through 1965. In addition to the physical refinements in fixturing and decor introduced in the stores, notable improvements in both the quality and selection was evident in virtually all classifications of merchandise, particularly fashion goods, where a large number of popular new labels were introduced. Throughout the stores the basic stock programme was refined and enlarged. Over 4,000 items have been added to the basic stock list and *being in stock in basic items at all times* has become the goal of every department in the company.

Two new departments have been added to your Company — strengthening our range of customer service. The budget department carries a wide range of lower-priced, ready-to-wear lines, while our new piece goods department offers a complete selection of yard goods and sewing accessories.

Our major fashion shows held at the Canadian National Exhibition, the Royal York Hotel in Toronto and the Hotel London in London, brought Sayvette's new merchandising story to some 40,000 women in the Fall of 1965.

Sayvette's new image has been further improved through the introduction of



Sayvette's new warehouse has resulted in more efficient and economical storage of furniture and appliances as well as producing a better overall delivery service for customers.

Original ideas in fixturing such as shown here in our new Jewellery department are the result of Operation Microscope — a focusing of management's attention on improving the merchandising in all departments.

CONSOLIDATED STATEMENT OF DEFICIT for the year ended January 1, 1966

	1965	1964
BALANCE — BEGINNING OF YEAR	$4,064,298	$2,032,869
Net profit (loss) for the year	60,356	(681,958)
	4,003,942	2,714,827
Debenture discount and expense written off	13,210	—
Adjustment of a prior year's loss	—	53,617
Other assets written off	—	1,295,854
BALANCE — END OF YEAR	$4,017,152	$4,064,298

CONSOLIDATED STATEMENT OF EARNINGS for the year ended January 1, 1966

	1965	1964
GROSS SALES less returns, including sales of leased departments	$18,969,142	$16,773,645
TRADING PROFIT	5,146,945	4,078,834
Less: Operating expenses before the following items	4,875,460	4,468,609
Directors' fees	—	—
Executive salaries paid to directors	56,000	80,278
Depreciation and amortization of fixed assets and leasehold improvements	96,161	73,143
Debenture interest	—	17,178
Bank interest	58,968	38,584
	5,086,589	4,677,792
OPERATING PROFIT (LOSS) FOR THE YEAR	60,356	(598,958)
Non-recurring special item	—	83,000
NET PROFIT (LOSS) FOR THE YEAR (note 6)	$ 60,356	$ (681,958)

CONSOLIDATED STATEMENT OF SOURCE AND USE OF FUNDS for the year ended January 1, 1966

	1965	1964
SOURCE OF FUNDS		
Net profit for the year	$ 60,356	—
Add: Charge not requiring cash outlay — Depreciation and amortization of fixed assets and leasehold improvements	96,161	—
	156,517	—
Proceeds from issue of shares	15,488	—
Proceeds from issue of debentures (converted into shares of capital stock)	—	285,000
	172,005	285,000
USE OF FUNDS		
Additions to fixed assets — net	244,782	90,344
Increase in prepaid rent and bond discount and expenses	63,602	83,254
Increase in deferred expenses	179,461	—
Loss for the year, less depreciation of fixed assets and amortization of leasehold improvements	—	608,815
Adjustment of prior year's loss	—	53,617
	487,845	836,030
DECREASE IN WORKING CAPITAL	315,840	551,030
WORKING CAPITAL — BEGINNING OF YEAR	325,403	876,433
Decrease in working capital	315,840	551,030
WORKING CAPITAL — END OF YEAR	$ 9,563	$325,403

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended January 1, 1966

1. ASSISTANCE AGREEMENT

The company agreed as of October 27, 1964 to pay an amount of $2,500,000 on November 15, 1969 for assistance in the renegotiation of certain leases and advice and consultation to management, provided that the financial support shall not have then been withdrawn. The said sum of $2,500,000 is to be paid in cash or by issuance of treasury shares pursuant to the unexercised portion of the option (note 2(b)) or a combination of both at the direction of the optionee. If the financial support is withdrawn before November 1, 1969 the sum of $2,500,000 to be paid shall be reduced by $500,000 for each full twelve month period remaining between the date of such withdrawal and that date.

The company intends to write off the cost of $2,500,000 as benefits are received under the agreement, rather than by November 15, 1969 as was originally planned. During the year, $10,000 of the total cost was absorbed as a charge against operations.

2. STOCK OPTIONS

(a) Options which may be exercised at various dates up to January 31, 1967 have been granted to employees on 20,000 shares at $7.50 per share and on 58,400 shares at $3.50 per share. Subsequent to the year end, options on 600 shares were cancelled as a result of terminations of employment, and options on 500 shares were exercised at $3.50 per share.

(b) In consideration of the provision of a line of bank credit up to but not exceeding $2,500,000 until and including November 1, 1969, the company has granted an option at $3.25 per share on 800,000 shares without par value in the capital stock, exercisable at any time, and in respect of all or any of these shares, until and including November 1, 1969. The financial support may be withdrawn if control of the company changes hands, in which event the option will be terminated, subject to the provision that, if at the date of the withdrawal, the company is indebted to the optionee as a result of the provision of the financial support or otherwise (note 1) the optionee shall be entitled to purchase shares pursuant to the option and to apply against the purchase price the amount, or part thereof, of such indebtedness.

3. CHANGES IN ISSUED SHARE CAPITAL

During the year, the company issued a total of 103,225 shares of its capital stock, 98,800 of which resulted from the conversion of the $247,000 6¼% debentures and 4,425 shares from the exercising of stock options by employees for $15,488 cash.

4. LONG-TERM LEASES AND COMMITMENTS

Minimum annual rentals of long-term leases covering premises and equipment amount to approximately $1,044,000 exclusive of payments of property taxes and other expenses and additional rental contingent upon the level of sales in three of the four stores. The initial terms of the four major leases expire in 1996 and 1997. The company has the option of renewing each of these leases for two further periods aggregating 64 years. The premises and equipment may be purchased for specified amounts at the end of the second renewal period.

Arrangements have been made for the construction of a new store at an approximate cost of $1,400,000 which will either be constructed by the company or leased on a long-term basis.

5. DEFERRED EXPENSES. The deferred expenses consist of the following:

New store opening costs —	Design and site development	$28,728	
	Salaries	61,400	
	Moving and miscellaneous	24,384	$114,512
Advertising and sales promotion			54,200
Credit promotion			10,749
			$179,461

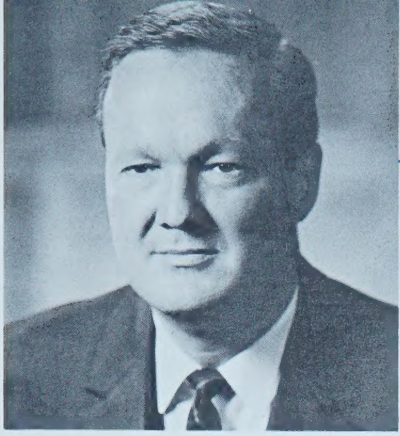
There were no advertising or sales promotion expenses deferred at December 26, 1964, the end of the previous fiscal year. During the year the company embarked on an advertising and promotional campaign on an institutional basis in keeping with the planned store expansion programme. At the end of the year, $54,200 of such expense was deferred, and it is intended to write this off over a two-year period, commencing with the opening of a new store in 1966. It is intended that new store opening costs and other deferred expenses will be written off over a two-year period.

6. INCOME TAXES

No provision for income taxes is required because of the application of prior years' losses.

7. DEMAND LOAN

No interest is payable on the demand loan to January 1, 1966.



PAUL G. JEFFREY — PRESIDENT

OFFICERS, DIRECTORS OPERATIONS EXECUTIVE

Officers

Paul G. Jeffrey, *President and Chief Executive Officer*

Thomas L. Anderson, *Vice-President*

Norman C. Van Hatten, *Vice-President*

Jerome N. Sprackman, *Vice-President*

Fraser E. Grimshaw, *Secretary-Treasurer and Comptroller*

Directors

Thomas L. Anderson

Russell C. Davies

Donald M. Deacon

Paul G. Jeffrey

W. S. Robertson, Q.C.

Donald G. Ross

James Rotto

Operations Executive

Paul G. Jeffrey, *President*

Norman C. Van Hatten, *Vice-President and General Merchandise Manager*

Jerome N. Sprackman, *Vice-President Sales and Operations*

Fraser E. Grimshaw, *Comptroller*

Ronald B. McCartney, *Advertising and Sales Promotion Manager*

Mrs. Joan Sutton, *Fashion Consultant*

R. Greenhalgh, *Divisional Stores Manager*

J. L. Cepler, *Divisional Merchandise Manager*

H. R. Cummings, *Divisional Merchandise Manager*

P. Gibbons, R. J. Reynolds, P. White

J. Kroom, *Store Managers*

Registrar and Transfer Agent

Canada Permanent Trust Co.

Auditors

McDonald, Currie & Co.

Bankers

The Royal Bank of Canada

REPORT TO THE SHAREHOLDERS

For the year ended January 1, 1966, your company showed:

- An operating profit of $60,356 vs. a loss of $598,958 in 1964.
- Net sales of $19.0 million vs. $16.8 million in 1964, an increase of 13.1%.

The infusion of working capital resulting from the financial arrangements of December, 1964, as reported in our last annual report, resulted in:

- An uninterrupted flow of merchandise throughout 1965.
- Increased cash discounts, 2.3 times the 1964 figure.
- Repayment of the $1 million bank loan.
- Cancellation of the $700,000, 6% debentures pledged as security for the bank loan.
- Improved credit rating which helped in the acquisition of 21 key additional brand name suppliers.

In our continuing programme to increase the efficiency of the company's operations, we separated the buying and selling functions within the company, and appointed two Vice-Presidents to head up these divisions.

Throughout 1965 we continued to upgrade the quality of our merchandise and service, and to present more attractive stores through better merchandise presentation to our customers.

New appointments in the area of store management, supplemented by comprehensive staff training resulted in a noticeable improvement in the efficiency, appearance and general calibre of our store personnel.

During 1965 your company recorded a satisfactory improvement in charge account sales. By the year end we re-established our charge business as an important factor in our operations.

In May, 1965 your company leased warehouse facilities of 20,000 square feet at Keele Street and Highway 401, centrally located in respect to our three Toronto stores, providing for rapid and economical distribution of furniture and major appliances. This resulted in a reduction of 50% in the unit delivery cost of this type of merchandise. The buying offices for furniture, floor coverings and major appliances were consolidated at this warehouse location, further improving the operational efficiency of these divisions.

The interior store renovation programme started in the Thorncliffe Store late in 1964, was completed in 1965. Our Yonge and Steeles Store was also renovated and a similar programme is now in progress in our Dixie and London locations.

Excellent progress was achieved in our important basic stock programme in 1965. Over 4,000 separate items of merchandise were added to the basic list of the previous year, and all lines were reviewed and refined.

The enclosed shopping mall at Yonge and Steeles will open in June of this year, having been delayed by construction strikes. Our fifth store scheduled to open next fall will be located at Danforth Road and Eglinton Avenue in the east Toronto suburb of Scarborough.

At the end of the first 13 weeks of 1966 your company sales were over 15% higher than the corresponding period of 1965. If this trend is maintained, the company can look forward to a continuing improvement in its operations.

I extend my appreciation to the Directors, Officers and employees of Sayvette who have contributed to the greatly improved position of the company during 1965.

PG Jeffrey

PAUL G. JEFFREY,
President

TWO NEW DEPARTMENTS EXPAND SCOPE OF MERCHANDISE PRESENTATION

FASHION SHOWS ATTRACT LARGE AND ENTHUSIASTIC AUDIENCES

NEW NAME DESIGN GIVES IMPACT TO FASHION IMAGE

CONSUMER RESPONSE TO SAYVETTE PROMOTIONAL PHILOSOPHY MAJOR SALES FACTOR

REORGANIZED STAFF TRAINING PROGRAMME PRODUCES RESULTS

CONSTRUCTION START ON FIFTH SAYVETTE UNIT WILL LAUNCH LONG PLANNED EXPANSION PROGRAMME

a new name design which is being incorporated into most forms of public exposure, including newspaper advertisements, packaging materials, trucks, credit cards, employee identification badges and "in-store" signs and displays.

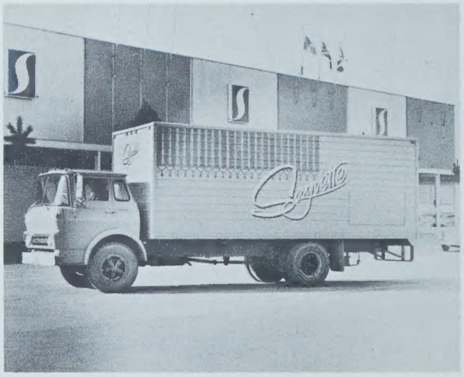
Sayvette's philosophy, that an exciting shopping atmosphere produces increased sales, was proved by the overwhelming consumer response to our special storewide promotions such as the traditional Holiday sales, the Warehouse sales and our "Marathon Sales Event."

Staff training programmes were introduced at all levels in 1964 with particular emphasis on training Department Managers. This is part of a long-range plan to provide the management that Sayvette will need in the future as it expands. Our training programme includes all of the latest visual aids and places special emphasis on the part played by our cashiers and selling staff in improving our customer service.

Industry endorsement of our policies can best be measured by the fact that we were paid the honour of being chosen a finalist in the 1965 Judy Awards competition sponsored annually by the Garment Salesmen (Ontario) Market for outstanding achievement in the field of fashion retailing.

Store Number Five, which is to open next Fall, will incorporate many of the newest merchandising and fixturing ideas. It will represent new ideas in modern design and operational efficiency and will offer a full line of consumer products in a selling area of approximately 80,000 square feet. Designed for optimum productivity in every department, it is based upon a much improved floor plan which groups related merchandise and provides a more complete circulation of traffic through all departments. Many other plans and innovations, in process of development during 1965, are now in action and will be reflected in Sayvette's continued progress during 1966.

Special promotions such as our storewide sales and holiday "events" consistently draw heavy vehicle traffic and add to our image as an exciting place to shop.



The New Sayvette Image is evident in the fashionable appearance of our delivery trucks which incorporate the new colour scheme and name design.

Over 40,000 women watched Sayvette's fashion shows last fall and all stores reported a definite buying reaction after each show.